

Refills Without the Wait

By Lawrence Carrel
August 25, 2005

Amistar Corp. (AMTA¹)

Share price as of Wednesday's close: \$2.80

Share price now: \$4.57

Change: 63.2%

Volume: 1.4 million shares, daily average 2,100 shares

Last time this high: March 11, 1998

52-week high: \$5.15

52-week low: \$2.01

Forward P/E before announcement: n/a

Forward P/E after announcement: n/a

LONG LINES AT THE pharmacy could soon be a thing of the past.

Shares of **Amistar** (AMTA²) rocketed 63% to a seven-year high of \$4.57 Thursday after a subsidiary of the San Marcos, Calif., company installed an automated drug-dispensing machine at a Kmart in New York City. Amistar Chairman Stuart Baker described the arrangement as a trial; Kmart, owned by **Sears Holdings** (SHLD³), has no obligation to buy more units. But that didn't keep investors from driving Amistar's stock up as much as 121% intraday on the hope that the machines would ultimately end up in hundreds of Kmart's nationwide.

"I think there is an interesting market opportunity here for retailers," says Paula Rosenblum, director of retail research at Aberdeen Group, a technology market-research firm in Boston. "Stores have two goals: One is to be customer-centric, and the other is to hold the line on payroll costs. These machines allow stores to have fewer pharmacists on duty and still provide customer service." (Rosenblum doesn't own shares of Amistar; Aberdeen Group doesn't have an investment-banking relationship with the company.)

Resembling a bank ATM, the Automated Product Machine, or APM, made by Amistar's Distributed Delivery Networks subsidiary dispenses filled prescriptions to pharmacy customers. Here's how it works: A customer phones in his refill order, which is processed by a real-life pharmacist. A bar code is attached to the prescription, which is placed in the vending machine. At his convenience the customer can then go to the store, insert a credit card into the APM and retrieve the prescription. To avoid mix-ups, the customer must register for the service ahead of time and receive a personal identification number.

"[Distributed Delivery Networks'] APM maximizes every second of our customers' time by providing them with a more efficient alternative to pay for and retrieve refill prescriptions in less than a minute," said Mark Doerr, divisional vice president at Kmart, in a written statement.

If the technology catches on with consumers the revenue potential for Amistar is huge. Kmart, which didn't return phone calls seeking comment, operates 1,479 stores nationwide, of which 1,132 offer pharmacy services. The big drug-store chains like **Rite Aid** (RAD⁴), **CVS** (CVS⁵) and **Walgreen** (WAG⁶) have thousands of additional locations. Each APM sells for \$55,000.

A new source of revenue would be a nice change of pace for Amistar. Prior to helping found Distributed Delivery Networks in April 2004, the 34-year-old company built automated machinery, including machines that assembled circuit boards, for electronics manufacturers. Amistar hasn't posted a profit since 2000.

For the second quarter, the company reported a net loss of \$1.3 million, or 40 cents a share, wider than the year-earlier

loss of \$743,000, or 24 cents. Revenues climbed 20% to \$2.7 million. Losses in the latest quarter included \$522,000 in start-up and development costs related to APMs and \$299,000 in legal fees. Asteres, the developer of a rival automated drug-dispensing machine called ScriptCenter, has accused Amistar of stealing its trade secrets. The trial is scheduled to get underway in September.

Amistar is counting on APMs to bring it back to profitability, but officials declined to offer a timeframe. Management is lobbying states to allow drugs to be dispensed by machines. So far the California and Virginia pharmacy boards have granted waivers to rules requiring a pharmacist be present when prescriptions are picked up. California has proposed a permanent rule change, and other states are mulling provisions that would allow APMs. California is expected to make a decision next year.

"I think the market opportunity is intriguing," says Aberdeen's Rosenblum. "There are lots of stores that sell drugs. And a nice thing is standard pharmacies close before the drug store closes. So they can leave the drugs for me in a dispenser and still keep their payroll where they want it. So, it's a capital expense and not a payroll expense for the drug store. Everyone is happy — a nice blend of customer-centricity and keeping costs down."

Quote:

"The name of the game for the retailers is to increase comparable-store sales without increasing payroll costs," says Aberdeen's Rosenblum. "So if you add a high-margin business, without adding full-time labor force to support it, it's a pretty compelling proposition. It's a good deal for everyone. You still keep the pharmacists working the same hours, but customers can pick up the drugs when they want."

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Getting Your Drugs From a Vending Machine

Pharmacies Test Kiosks That Dispense Refills: Some Regulators Are Leery

By RHONDA L. RUNDLE

Staff Reporter of THE WALL STREET JOURNAL
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There's a new antidote for long lines at the drugstore pharmacy: machines that serve up your prescription refills like a can of Coke or a Snickers bar.

The idea behind the machines, which look much like a typical bank ATM, is to expedite a process that is often bogged down by long lines and frustrating waits.

Once customers have filled an initial prescription with the pharmacist, they can register to retrieve and pay for their refills at a vending machine inside the store -- even when the pharmacy counter isn't open. Consumers order their refills in the usual way, either online or by phone. A pharmacist then fills the script and places packaged medicines in the machine. To pick up the order, consumers log on with a user name and password and swipe a credit or debit card. Their pre-wrapped package drops into the bin.

The California and Virginia pharmacy boards have cleared the way for the machines in their states, granting waivers of rules that require a pharmacist be present in order for drugs to be dispensed. And other states are considering allowing the machines.



— ScriptCenter drug-dispensing machine

In California, the State Board of Pharmacy has proposed a permanent rule change that could speed the spread of the technology. Between the stores that already have machines, and the ones that are considering it, "we're getting inundated with waiver requests," says the board's executive officer, Patricia Harris. The state Office of Administrative Law is expected to make a decision early next year.

One of the first drug-dispensing machines, called ScriptCenter, was installed in December at a Longs Drug Stores location in Del Mar, Calif. ScriptCenters are also on their way to an **Ahold** Giant Food store in Reston, Va., and a **Safeway Inc.** Vons supermarket in Southern California. Asteres Inc., the closely held Del Mar company that developed the ScriptCenter, says it is discussing sales and leasing deals with a number of large drugstore chains around the country.

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A similar, rival kiosk -- the Automated Pharmacy Machine from Distributed Delivery Networks Corp. (DDN) -- is being tested at White Cross Drug Store in San Diego.

Both companies recently made presentations to the Wisconsin Pharmacy Examining Board, which is exploring options for improving access to prescription drugs for people who live in rural areas.

The ATM-like machines are raising questions among pharmacists and state regulators who oversee prescription-drug dispensing. One worry is that patients might end up with the wrong drug. Some pharmacists also don't like the machines because they cut out traditional face-to-face consultations with patients. The concern is that patients might be discouraged from asking pharmacists about such things as whether alcohol should be avoided with a medicine, or possible drug interactions.

"There's lots of leering on the part of regulators and the fear that something like this could replace the pharmacist," says Mary Ann Wagner, vice president of pharmacy regulatory affairs for the National Association of Chain Drug Stores, a trade group in Alexandria, Va.

That can be a difficult argument to make given how many drugs are now dispensed by mail order. Indeed, driving this effort is a need by drugstore chains to boost competition against mail-order pharmacies by making pickups faster and easier. Mail order accounted for 14% of prescription drug sales last year, up from 10% in 1999, according to IMS Health Inc., a drug information and consulting firm in Fairfield, Conn. The machines will be particularly attractive to 24-hour supermarkets that want to cut back their pharmacists' working hours to reduce costs, says Christopher Thomsen, a pharmacy consultant in Kansas City, Mo.

"So far, there hasn't been a line at the machine," says Sid Schuman, holding up a sealed plastic bag that he has pulled out of a ScriptCenter machine at the Longs pharmacy on a recent day. The 69-year-old retired garden-supplies distributor says he placed an online order a couple of days earlier and just popped into the store to pick it up. There are no transaction fees for the customer.

A spokeswoman for Longs Drug Stores says the machines will free up pharmacists to spend more time talking with patients who have questions.

Device proponents say that security and accuracy concerns regarding the machines are overblown. Longs says it tested a ScriptCenter prototype for about six months at its corporate headquarters in Walnut Creek, Calif., to be sure that it wouldn't dispense the wrong drug. And Bill Holmes, president of DDN, a unit of Amistar Corp., says its Automated Pharmacy Machines use bar code and other technologies to avoid errors. Each prescription package has a unique bar code that is read when it is put into the machine and again before it is released to the patient. "If there's no match, the door won't open," says Mr. Holmes. "To date they haven't dispensed a single one inaccurately."

The Asteres and DDN systems are very similar. In fact, Asteres has accused DDN and San Marcos, Calif.-based Amistar of "misappropriation of trade secrets" in a lawsuit filed in a California state court last August. Mr. Holmes and Asteres founder Linda Pinney are both alumni of Pyxis, a maker of an inventory-management and drug-dispensing system used by nurses in hospitals that was acquired in 1996 by Cardinal Health Inc., a giant health-care concern in Dublin, Ohio. "We are aggressively defending ourselves against this litigation," Mr. Holmes says. A trial is set for September.

At the University of California at San Diego's medical center, researchers are planning an academic study

of drug-dispensing technology's impact on patient care and pharmacy management. The researchers say they aim to have a ScriptCenter machine installed in a clinic building in the next few months.

The drugstore machines are different from another growing drug-dispensing technology called InstyMeds that is used in about 20 urgent-care centers and hospital emergency rooms. The InstyMeds machines, often located in the waiting room, are prestocked with commonly used drugs. Physicians working in those centers can send an electronic order for a prescription to the machines, which print up a label and dispense the drug to the patient.

"We don't have any present plans to move into drugstores," says Ken Rosenblum, founder and chief executive of Minneapolis-based Mendota Healthcare Inc., developer of the InstyMeds machines.

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